The Real Estate ANALYST

SEPTEMBER 25
1951

Volume XX

Number 45

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.... Current Studies.... Survey.... Forecasts

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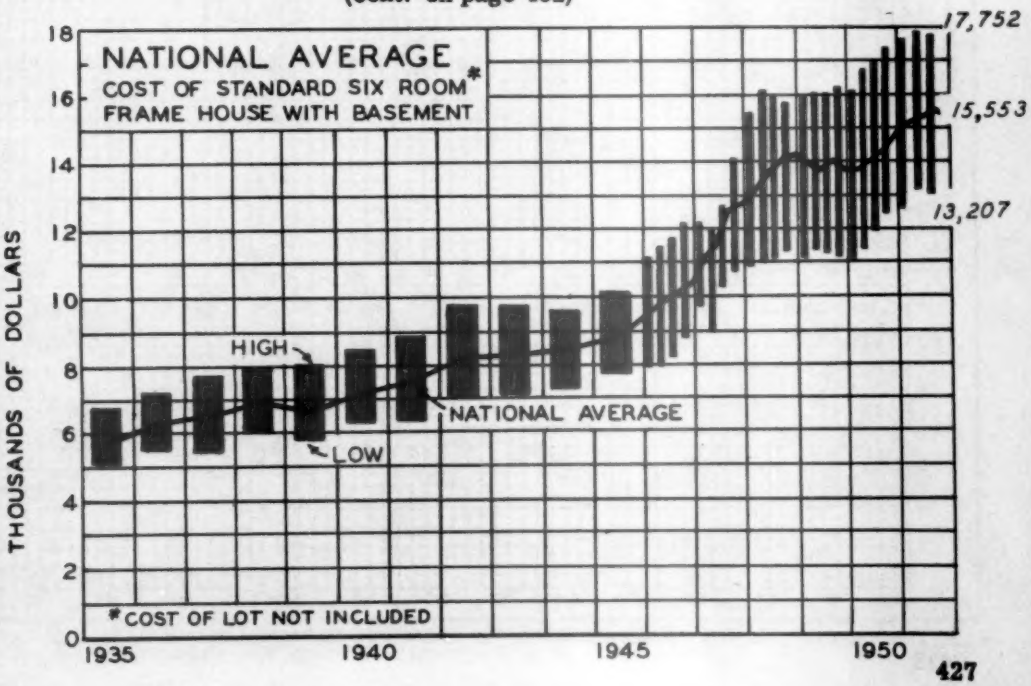
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

CONSTRUCTION COSTS DIP MOMENTARILY

DURING the third quarter of 1951 construction costs of our six-room frame house declined slightly. While the drop nationally was less than one percent, it nevertheless marked at least a temporary halt in the upward trend.

Despite this small decline, the national index (see chart below) was some 10½% above its pre-Korean level. There is little doubt that the Korean War has played a damaging role in sending costs higher. Since the outbreak of hostilities the greatest construction cost rises have been in Atlanta and Milwaukee, up 16% each; Detroit, up 15%; and Memphis and Baltimore, up 13% each. The smallest increase was represented by the 5% rise in Trenton, but that must be pretty cold comfort because Trenton had, and still has, the highest construction costs of any city we survey. Birmingham has the lowest cost of any city in our survey. The cost of our six-room frame house in the third quarter was "only" $13,207, or $4,500 cheaper than the Trenton cost.

(cont. on page 432)



TOTAL CONSTRUCTION COSTS OF A STANDARD SIX ROOM FRAME HOUSE BY CITIES

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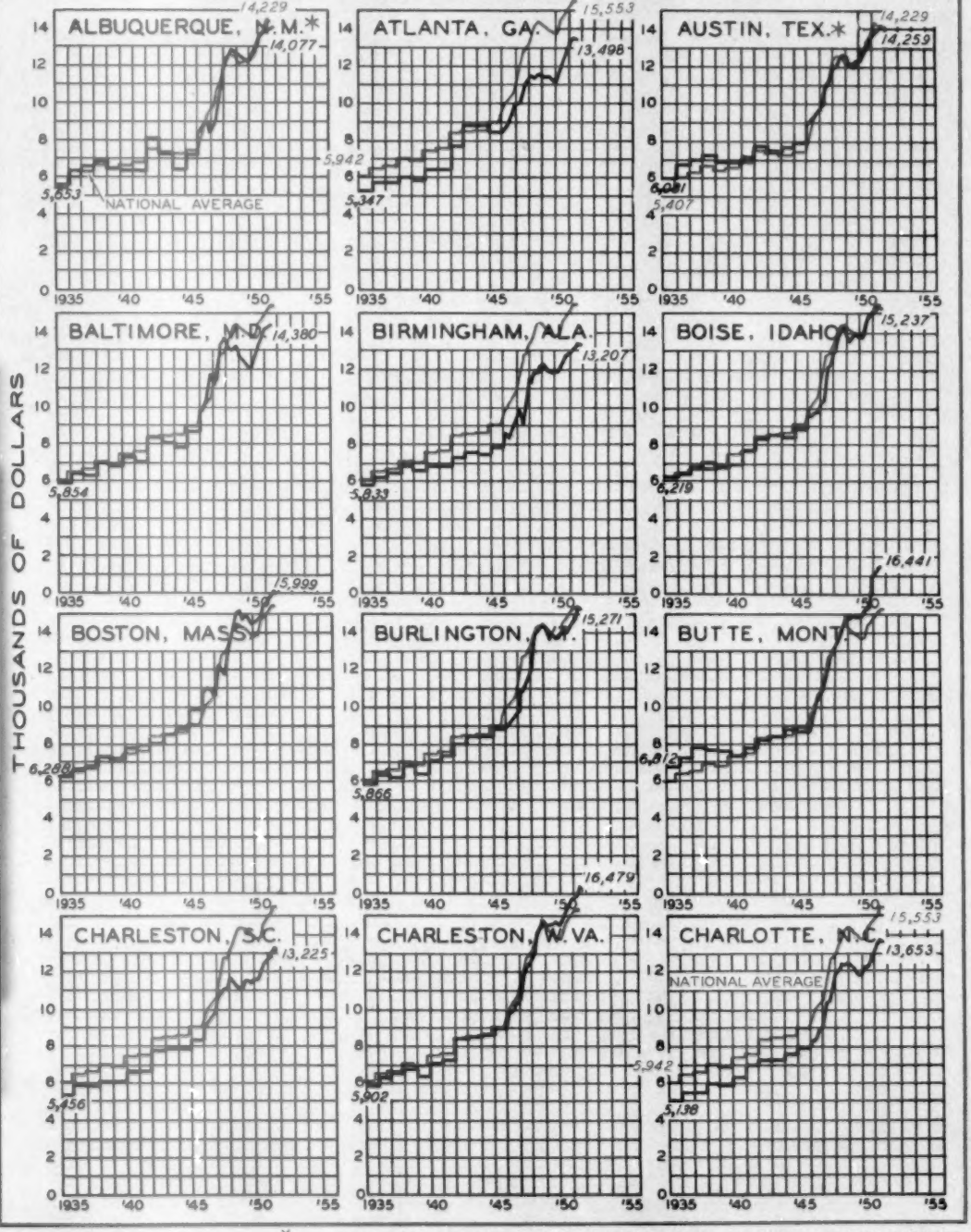

* FIGURED WITHOUT BASEMENT NOR CENTRAL HEATING BUT WITH FLOOR FURNACE

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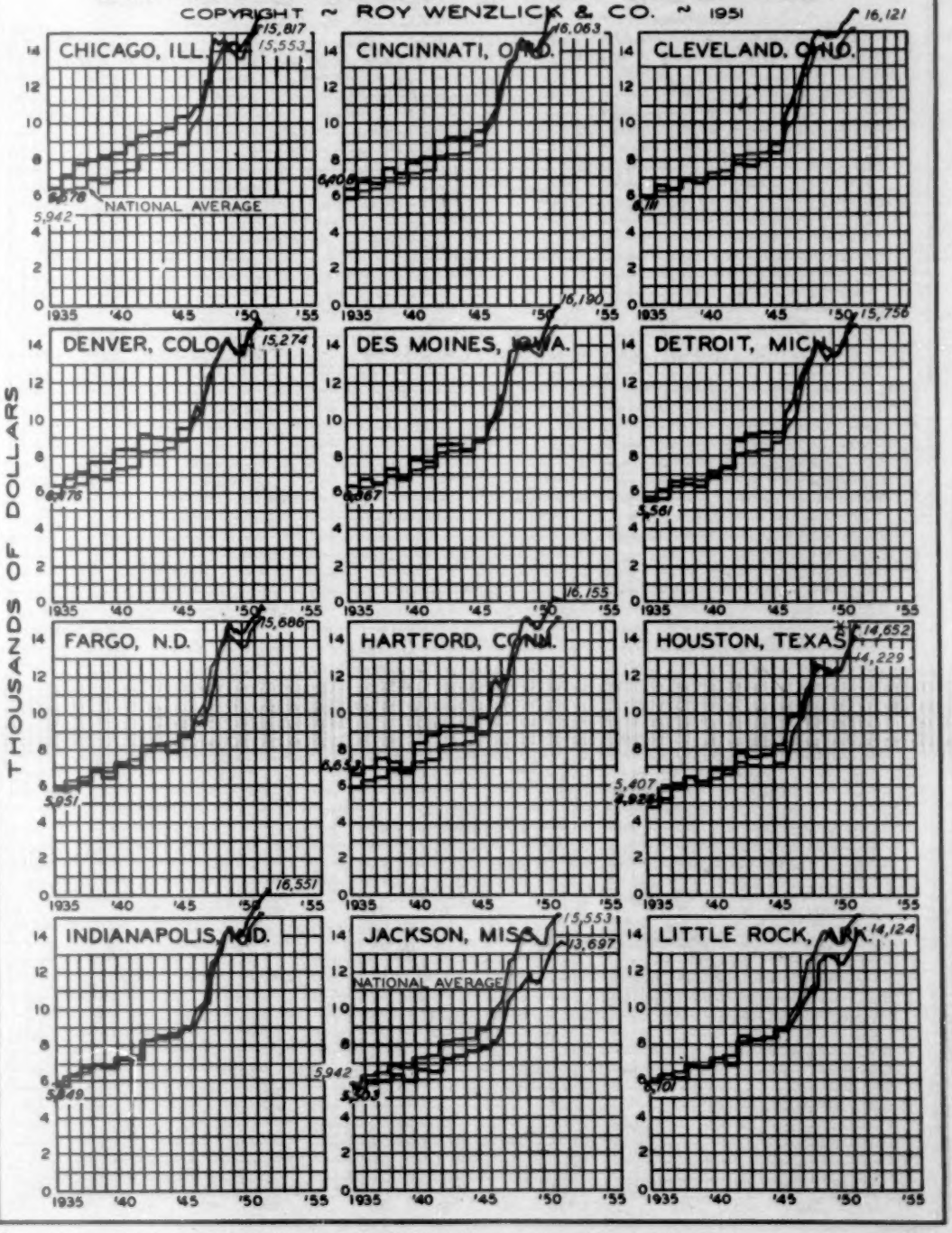

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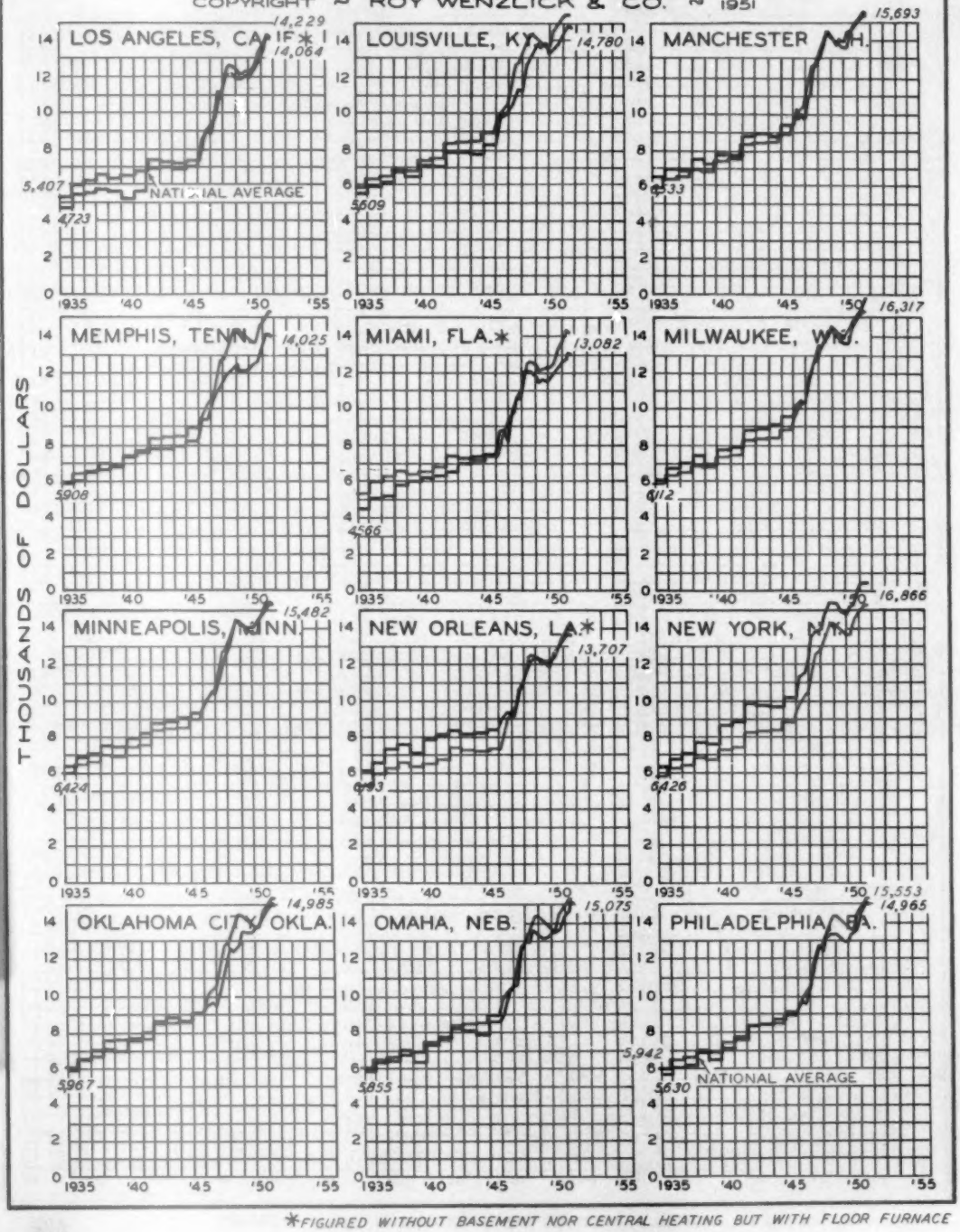

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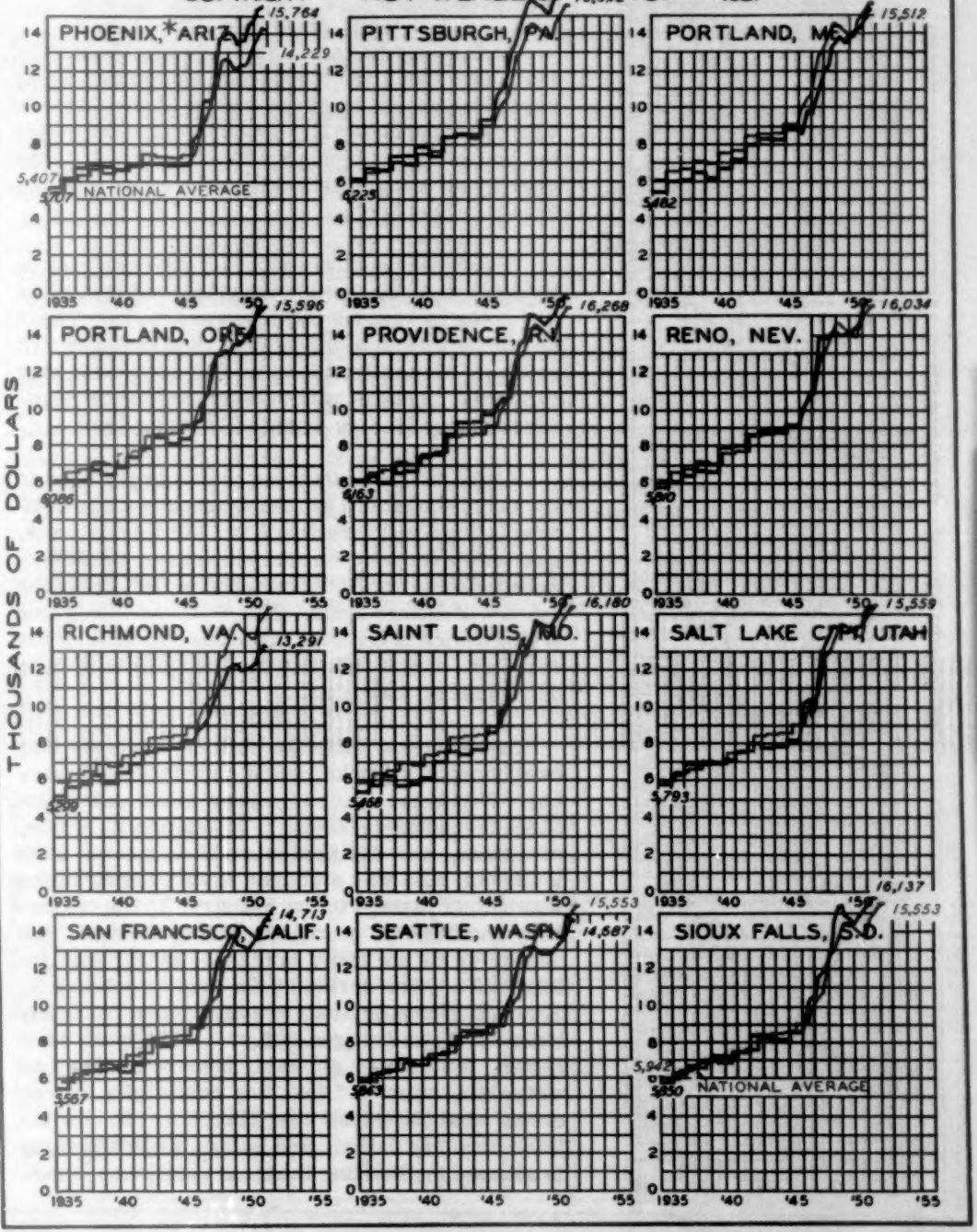

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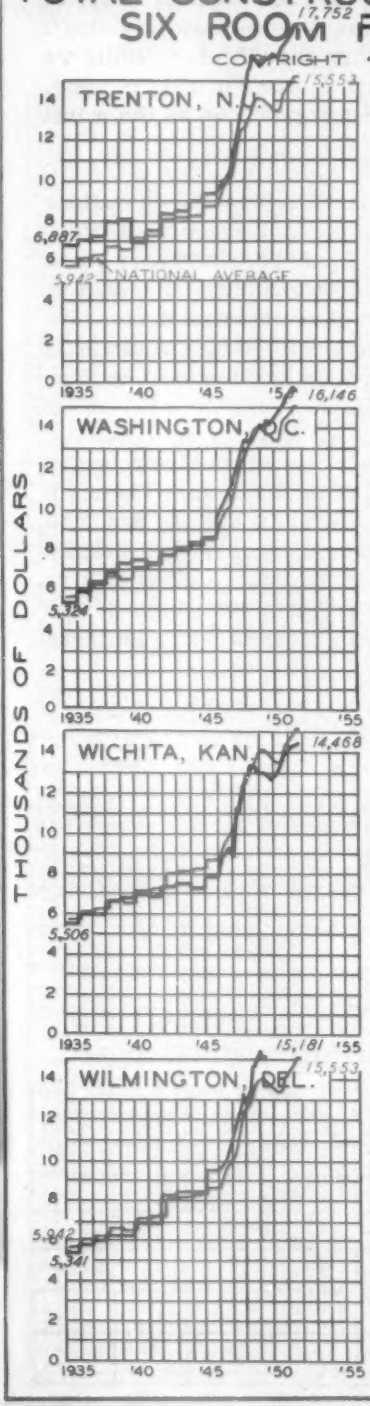


(cont. from page 427)

So far, we have been discussing the cost of the house with a full basement. On the preceding pages are charts tracing the cost of our house in 52 cities (1935-1951). In seven of these cities the house cost is figured without basement. The charts are marked to indicate the cities with the basementless house.

There seems little doubt that the construction industry is in for a very rough time and that costs are going to resume their upward move. There should be a rush to buy homes, and builders will probably have no trouble in moving everything they can build. This is particularly true since Regulation X has been so drastically liberalized.

About the time everyone begins to get used to the confusion caused by NPA Order M-4A and CMP Regulation 6 and Direction 1 to CMP Regulation 6, and once everyone concerned learns the difference between an "A" item and a "B" item, the rules will change again. There will be a long and trying period of ordering materials and waiting for delivery. Costs will rise as labor has to wait on deliveries of materials.

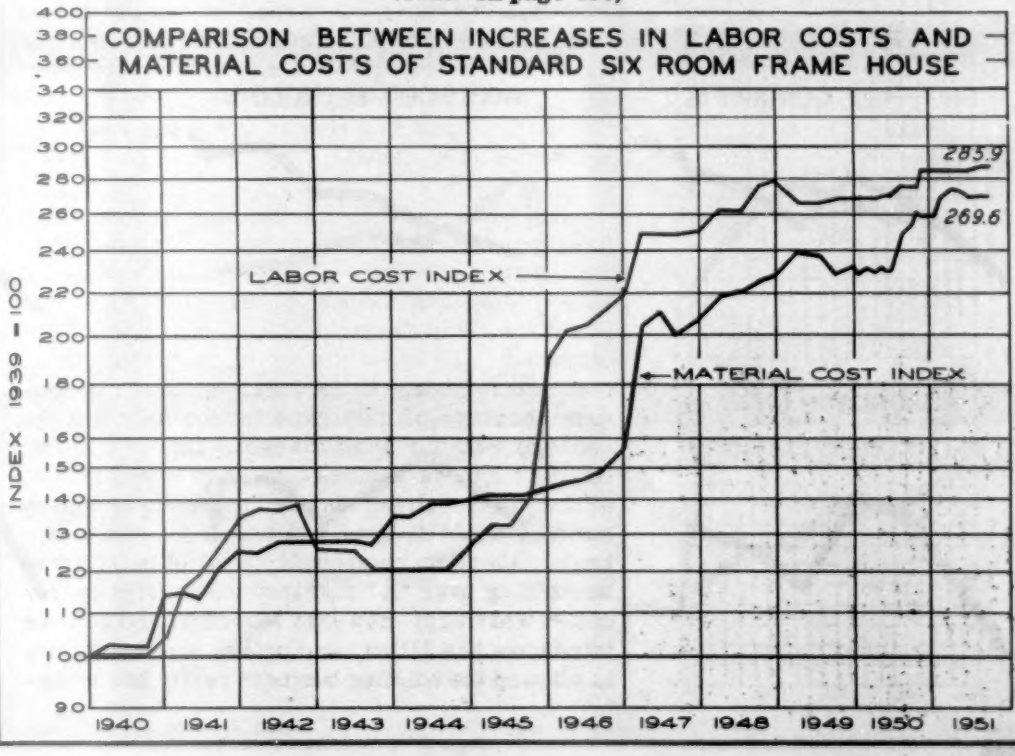
Say what you will, the building business may have many drawbacks, but it certainly isn't boring. Within the space of a year it has undergone three tremendous shocks: 1. Regulation X, which, of course, was not nearly so bad as some folks made out, and was a source of more indignation than actual damage to the industry; 2. the temporary shortage of mortgage money following the unpegging of the bond market. In our opinion, this was a more serious blow than Regulation X, although generalizations are hazardous and many builders would disagree with us. If the truth were known, there were probably a lot of builders so wrought up over "X" that they never fully appreciated what happened last March 8. So now the third blow has fallen, and unless some softening is allowed the building business really has some-

thing to worry about. One source in close contact with the home building industry told us that "the men who have a good inventory can go ahead - those who don't are going to be out of the building business sooner than they think." While we wouldn't necessarily subscribe wholeheartedly to such a sober pronouncement, we have been around long enough to recognize the CMP regulations as the worst thing to hit building since Pearl Harbor.

If the regulations work as they are supposed to - and they seldom do - a builder can go ahead with small four- to six-room houses with little government interference. Some builders even figure they can go to an $18,000 basementless house without too much trouble. Anyone building a bigger house will soon be caught up in the permit system that weaves slowly through the governmental maze. We have already been told that the NPA attitude toward permits will be overwhelmingly negative. Therefore, for an indefinite period very little building will be done in the larger residential or commercial fields.

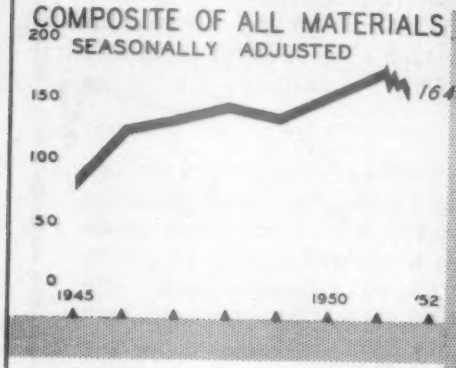
It will be possible for some builders to shift their operations from larger homes to smaller ones, but even this is not so simple as it seems. The main stumbling block will be the shortage of cheap land. When a builder has been operating in the medium- or high-price brackets his inventory of land is usually medium- or high-priced. It is usually unsuitable for the construction of low-priced homes. Then, too, in many instances where builders have high-priced land, zoning regulations restrict them to more expensive construction. Builders

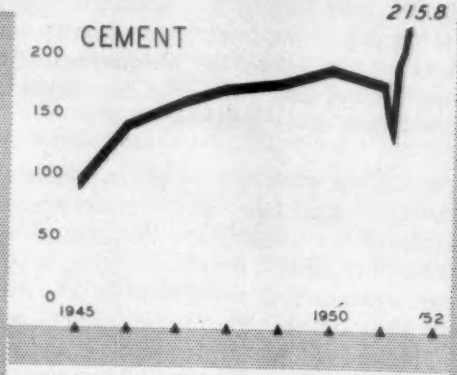
(cont. on page 437)

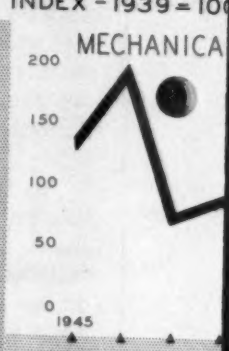


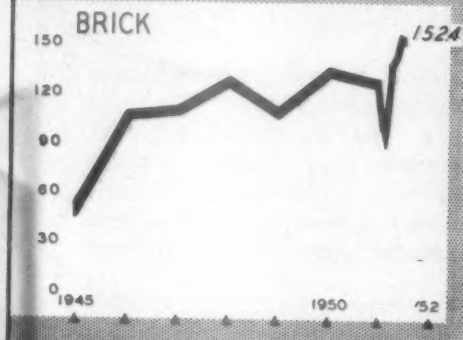
PRODUCTION OF BU

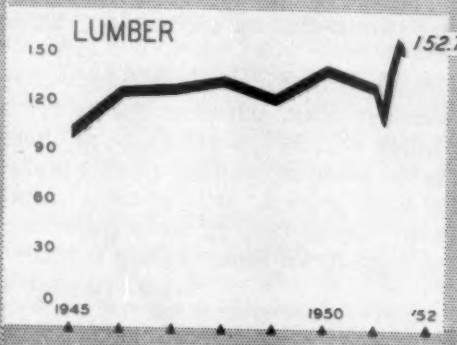
INDEX - 1939 = 10

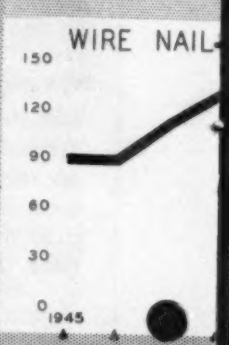


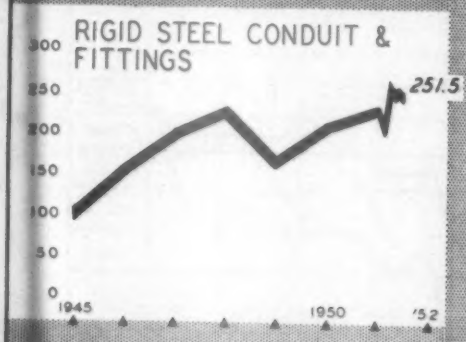


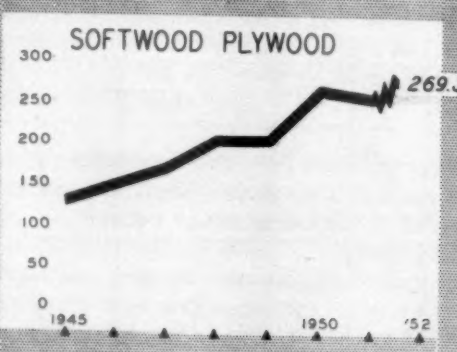


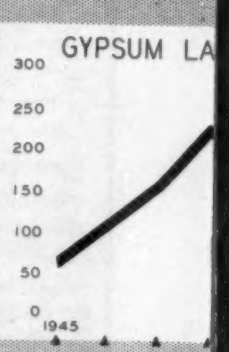


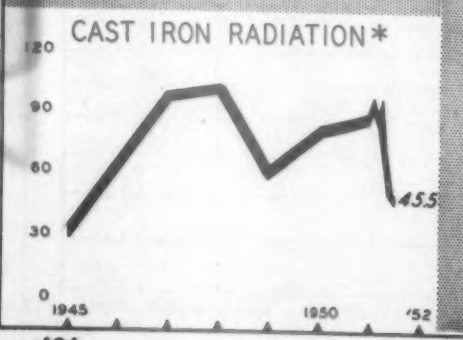


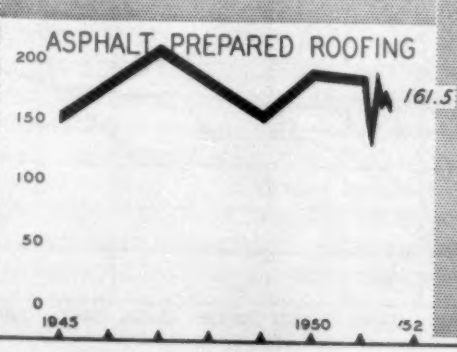


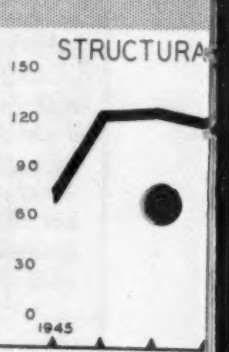












UILDING MATERIALS

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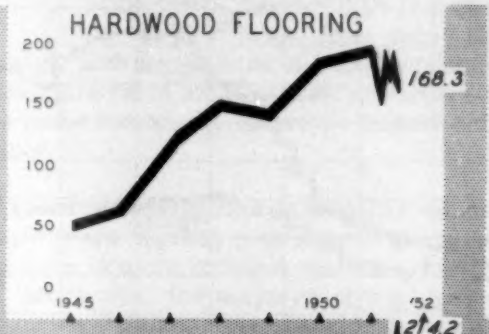

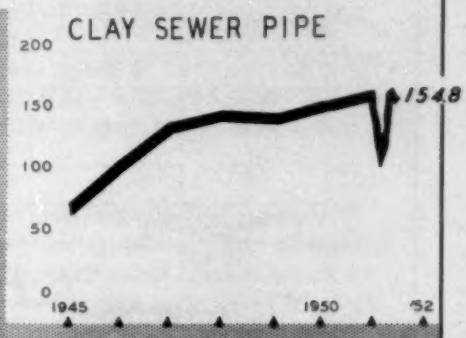

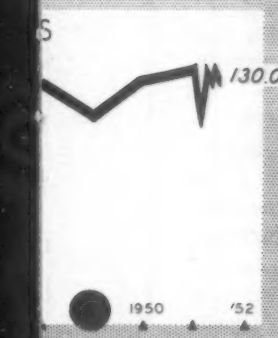

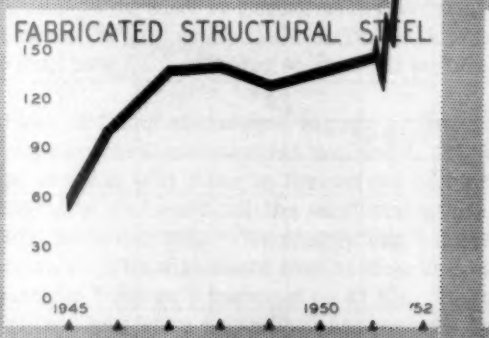

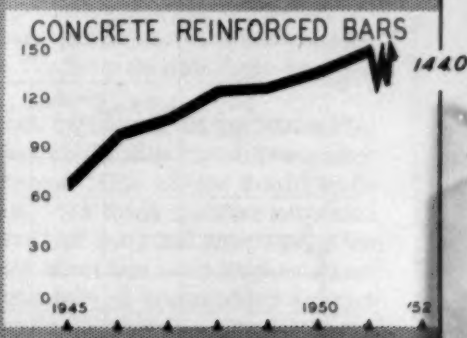

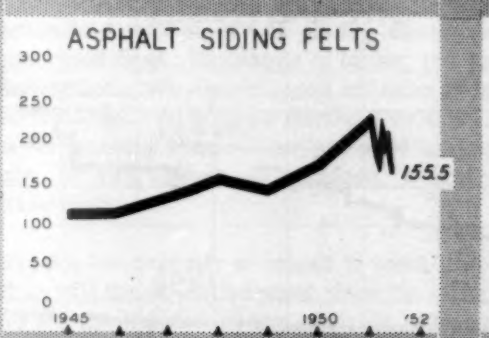

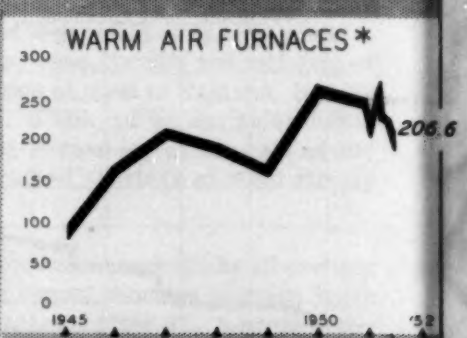

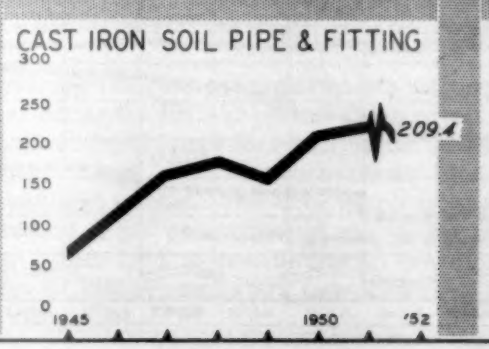

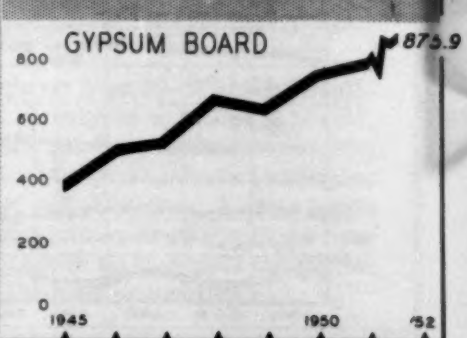

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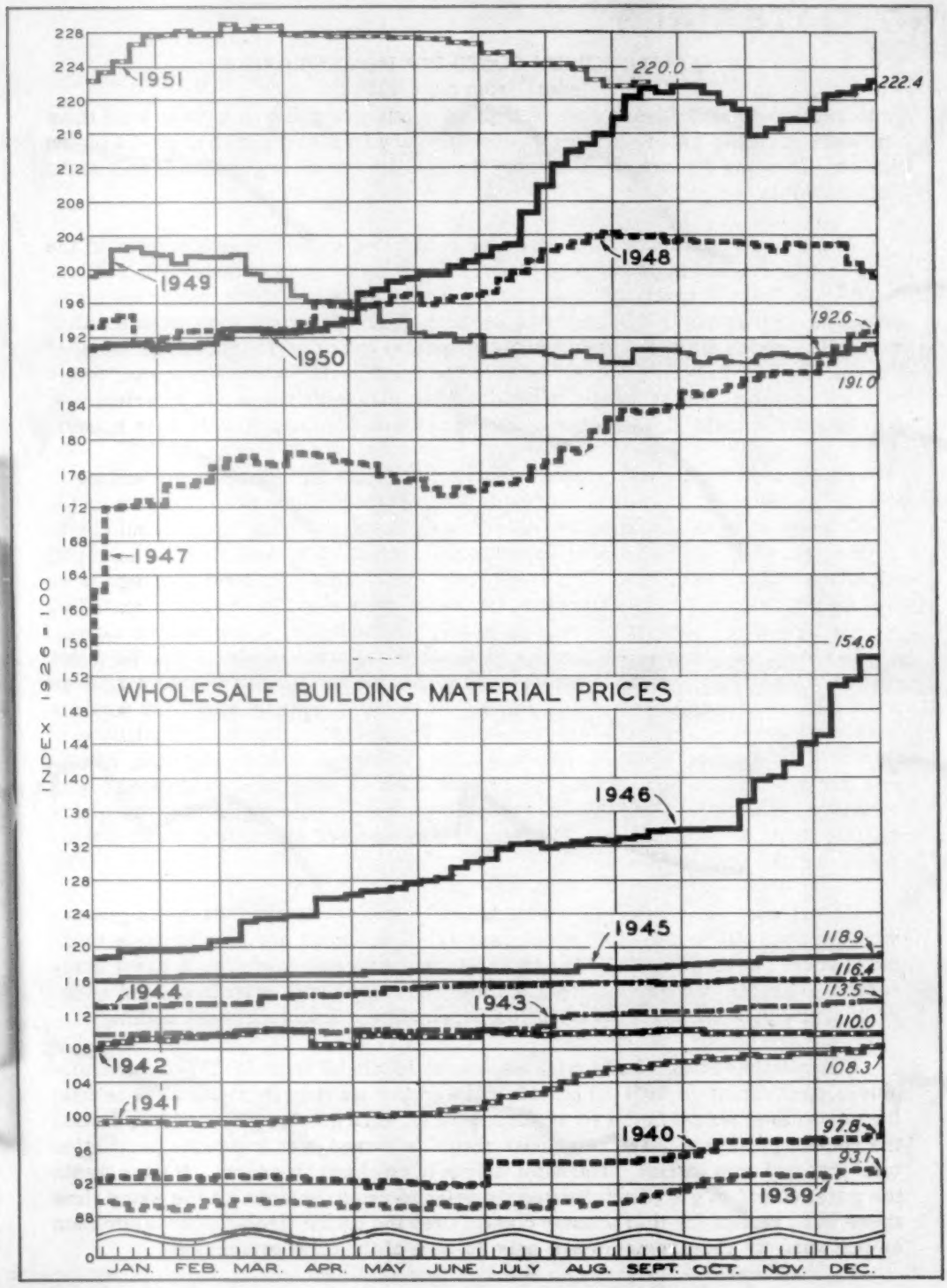

WHOLESALE BUILDING MATERIAL PRICES
INDEX 1926 = 100
228
224
220
216
212
208
204
200
196
192
188
184
180
176
172
168
164
160
156
152
148
144
140
136
132
128
124
120
116
112
108
104
100
96
92
88
0
1951
220.0
222.4
1948
1949
1950
192.6
191.0
1947
154.6
1946
1945
118.9
116.4
1944
113.5
1943
110.0
1942
108.3
1941
1940
97.8
93.1
1939
JAN.
FEB.
MAR.
APR.
MAY
JUNE
JULY
AUG.
SEPT.
OCT.
NOV.
DEC.

CONSTRUCTION COSTS DIP MOMENTARILY

(cont. from page 433)

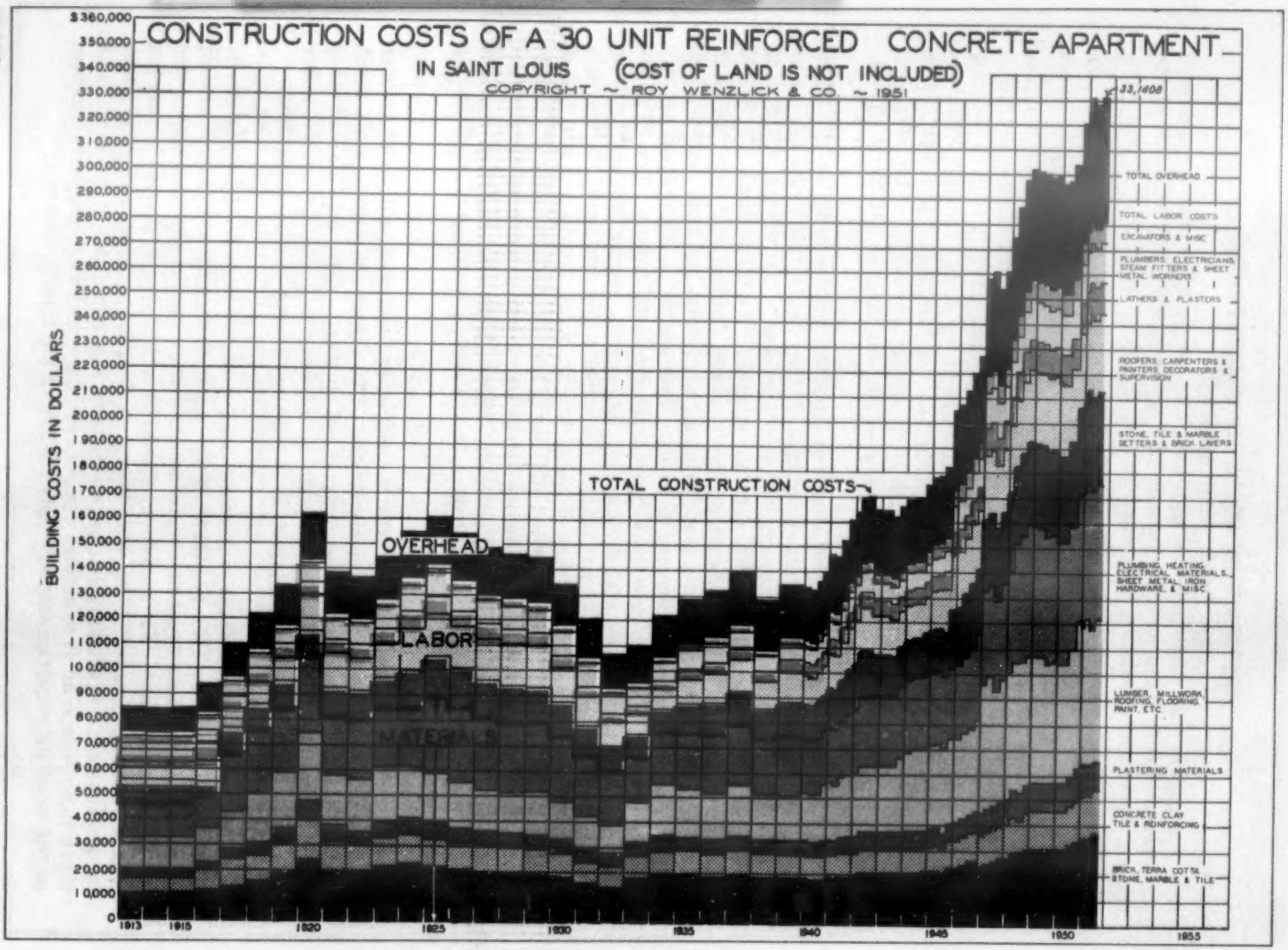
who are caught with inventories of high-cost lots are going to have to hold them or when possible build smaller houses and try to make a higher profit on the house. In some instances, the more liberal limits of Regulation X will make this possible.

If any broad statements are to be hazarded, we would guess that most of the bigger builders are in pretty good shape. Their inventories of materials and land should put them in much stronger positions than the much more numerous small builders. Moreover, the majority of the bigger operators have been building in the low-price field and have crews trained to carry on in that field. Most of them are going to be able to get by with the "self certification" process, which will allow them to get materials with little direct government interference. Furthermore, new "X" is going to make it easier for them to sell their houses.

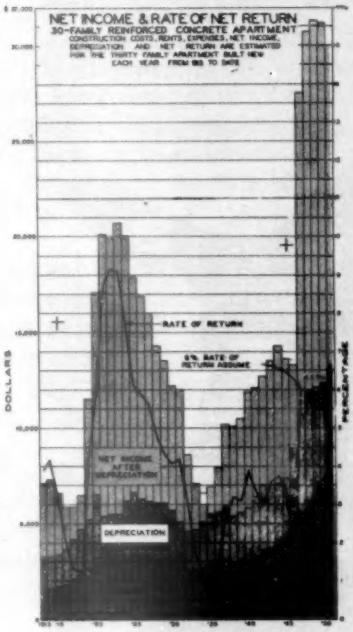
Few if any of these advantages accrue to the small builder or to the builder of larger residences and commercial buildings. If they can't shift to the low-price field, most of them will soon be forced out of business. Our advice would be to retire gracefully and wait out the next six months. We think that the material situation will be better then. We simply can't believe that the steel shortage is as bad as pictured. The statement that "twice as much steel has been requested as will be available" doesn't impress us at all. Undoubtedly, a tremendous amount of the steel that has been requested represents duplicate orders. The NPA denies this, but it is natural that they would. Moreover, during World War II we built a tremendous number of war plants, the world's greatest navy, the world's greatest merchant fleet, thousands of tanks, trucks, guns, bombs and millions of tons of ammunition. We also shipped millions of tons of steel to England, Russia and our other allies. At no time during World War II was our annual steel output more than 90 million tons. Our present output is running at the rate of 104 million tons, or 15% higher. Therefore, a protracted shortage of steel simply doesn't make sense.

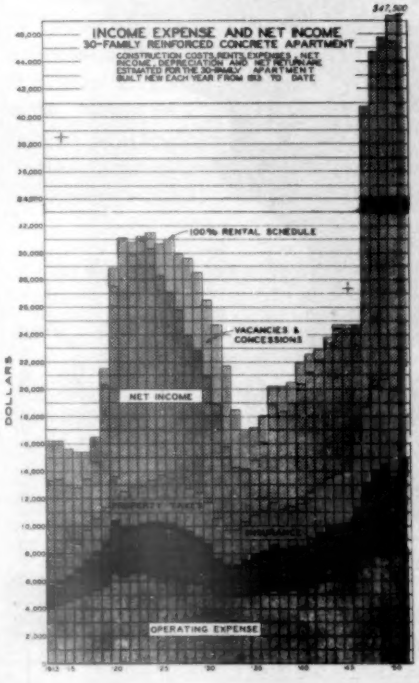
Undoubtedly, the scarcity of copper is much more serious and will be of greater duration than will the so-called steel scarcity. The copper shortage is made much more acute for the builder by the controls put on steel. After all, a great many copper products can be replaced by steel, but when both metals are put under control the possibility of substitution is narrowed down to almost nothing.

It is estimated that defense requirements will drain off from 25-35% of the available copper during the 1951-53 period. If the copper shortage is so bad as it seems, the government should figure its requirements for each quarter year and requisition the necessary amount. The remainder should be turned over to private production on a free and open market. The same is true of steel and aluminum. No one wants the government to get shortchanged on defense requirements: at the same time there is no reason for it to assume control over the entire steel-copper-aluminum output when its requirements are only 25-35% of the total production.


CONSTRUCTION COSTS OF A 30 UNIT REINFORCED CONCRETE APARTMENT
IN SAINT LOUIS (COST OF LAND IS NOT INCLUDED)
COPYRIGHT ~ ROY WENZLICK & CO. ~ 1951
BUILDING COSTS IN DOLLARS
$360,000
350,000
340,000
330,000
320,000
310,000
300,000
290,000
280,000
270,000
260,000
250,000
240,000
230,000
220,000
210,000
200,000
190,000
180,000
170,000
160,000
150,000
140,000
130,000
120,000
110,000
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1913
1915
1920
1925
1930
1935
1940
1945
1950
1955
33,1408
TOTAL CONSTRUCTION COSTS
OVERHEAD
LABOR
MATERIALS
TOTAL OVERHEAD
TOTAL LABOR COSTS
EXCAVATORS & MISC.
PLUMBERS, ELECTRICIANS, STEAM FITTERS & SHEET METAL WORKERS
LATHERS & PLASTERS
ROOFERS, CARPENTERS & PAINTERS, DECORATORS & SUPERVISION
STONE, TILE & MARBLE SETTERS & BRICK LAYERS
PLUMBING, HEATING, ELECTRICAL MATERIALS, SHEET METAL, IRON, HARDWARE, & MISC.
LUMBER, MILLWORK, ROOFING, FLOORING, PAINT, ETC.
PLASTERING MATERIALS
CONCRETE, CLAY, TILE & REINFORCING
BRICK, TERRA COTTA, STONE, MARBLE & TILE

APARTMENT INVESTMENTS IN A CONTROLLED ECONOMY


NET INCOME & RATE OF NET RETURN
30-FAMILY REINFORCED CONCRETE APARTMENT
CONSTRUCTION COSTS, RENTS, EXPENSES, NET INCOME, DEPRECIATION AND NET RETURN ARE ESTIMATED FOR THE THIRTY FAMILY APARTMENT BUILT NEW EACH YEAR FROM 1913 TO DATE
RATE OF RETURN
6% RATE OF RETURN ASSUME
NET INCOME AFTER DEPRECIATION
DEPRECIATION
DOLLARS
PERCENTAGE

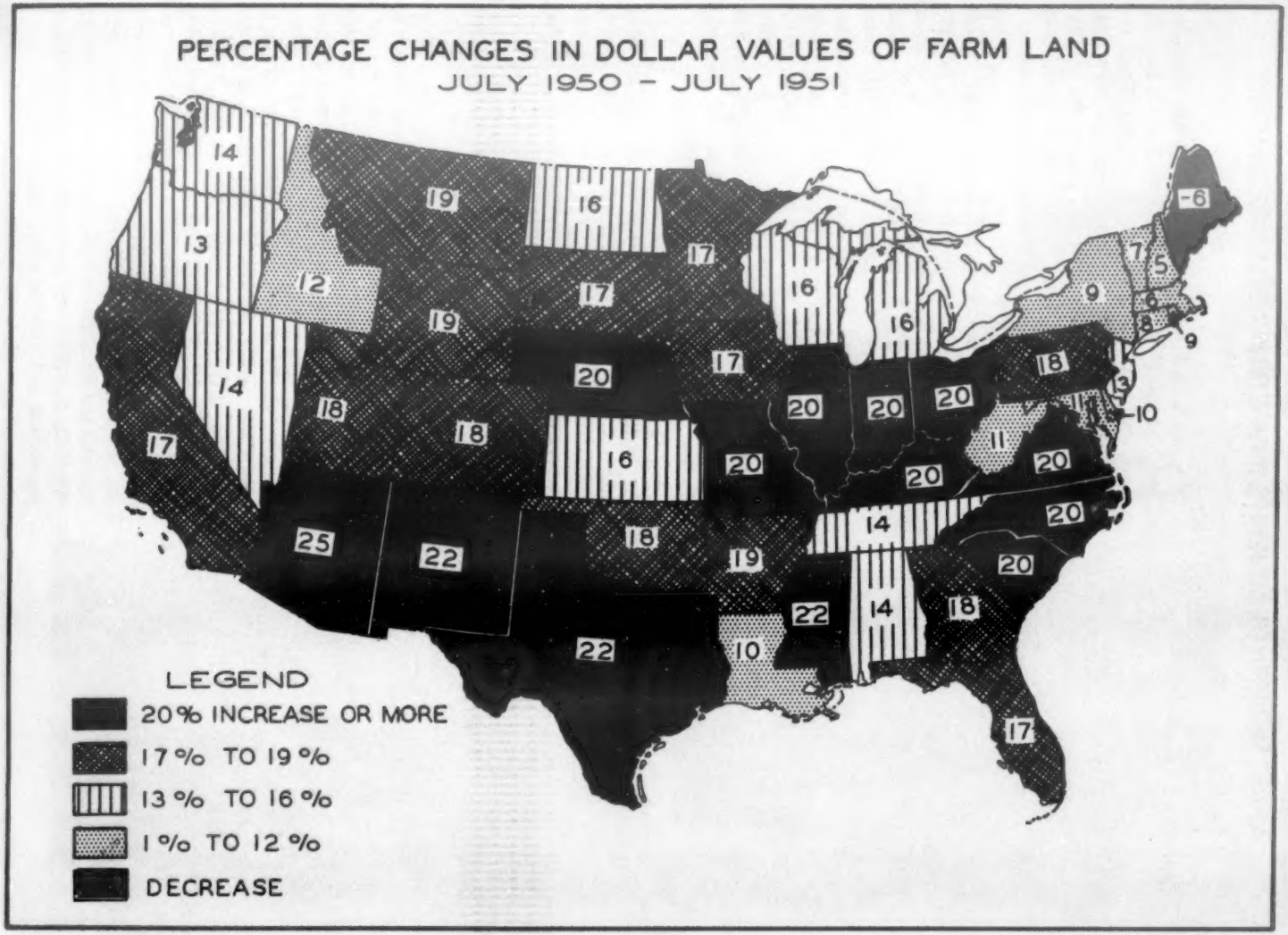

INCOME EXPENSE AND NET INCOME
30-FAMILY REINFORCED CONCRETE APARTMENT
CONSTRUCTION COSTS, RENTS, EXPENSES, NET INCOME, DEPRECIATION AND NET RETURN ARE ESTIMATED FOR THE 30-FAMILY APARTMENT BUILT NEW EACH YEAR FROM 1913 TO DATE
100% RENTAL SCHEDULE
VACANCIES & CONCESSIONS
NET INCOME
PROPERTY TAXES
INSURANCE
OPERATING EXPENSE
DOLLARS

BACK in the days before the controlled interest rate and the guaranteed loan, investment in new apartment buildings varied between being very profitable or very hazardous. Within the past few years the picture has changed drastically. It is neither particularly hazardous nor particularly profitable.

The chart in the top left-hand corner of this page shows the net income and rate of net return on a new 30-family fireproof apartment building from 1913 to the present. The blue line running up and down through the chart shows the rate of net return after depreciation. In 1922 and 1923 it rose to a trifle better than 9%, but by 1935 it had shrunk to a shade better than one-half of one percent. Naturally, this is why so many multifamily buildings were erected in the mid- and late twenties, and why so few were built in the mid-thirties.

In 1946, when rent controls on new building were still in force, the net return on this apartment was less than 2%. Of course, this was purely a hypothetical case because no one was building them for that return either.

When controls went off new construction we changed this chart somewhat. We asked the question: "What return (after depreciation) would be necessary to cause a prudent lender to invest in new apartment buildings?" We decided that 6% would be about right. In 1947 we started with 6% on the value of the building and lot and worked backwards to determine the rent schedule necessary to return that rate. This amount is shown on the chart in the lower left-hand corner. (This procedure has been followed only since 1947.) That is the reason the net return line has moved along at 6%. More recently, FHA-insured loans have financed nearly all such building. Since the rate of return recommended by FHA is 6½% before depreciation, we have dropped our net return line to 4½% to represent net return after depreciation.


PERCENTAGE CHANGES IN DOLLAR VALUES OF FARM LAND
JULY 1950 - JULY 1951
LEGEND
20% INCREASE OR MORE
17% TO 19%
13% TO 16%
1% TO 12%
DECREASE

CHANGES IN FARM VALUES SINCE KOREA

EVENTS following the advent of the Korean War have brought an average increase of 17% in farm land values throughout the country. According to the Department of Agriculture the average value is now well above its former peak reached in 1920. Most of the rise took place between the November 1950-March 1951 period as the price of farm products reached an all-time high. Since then, or from March 1951 to July 1951, momentum has carried land values up another 5% in the face of dropping commodity prices and forecasts of bumper crops.

As can be seen from the map on the opposite page, nearly all "agricultural" States enjoyed a rise at least equalling the national average of 17%. The biggest jumps were found in Arizona, New Mexico, Texas and Mississippi, whereas the abandonment of the potato price support program caused Maine farm land to drop 6%. This factor might have also had some bearing on the value of Idaho farm lands.

Farm land values in most States are now at their highest point in history. There are ten States where the 1920 values have yet to be reached. It is interesting to note that six of these ten States are located in the leading agricultural section of the country. These six States are Wisconsin, Minnesota, Iowa, Missouri, South Dakota and Nebraska.

While some declines may be expected in farm land values during the next six to twelve months there is little danger of a sudden or drastic drop. Although farm commodity prices are in a slow downward trend and crop prospects are excellent, there is ample reason to expect a continued strong demand for most farm products. This is a general statement covering the nation as a whole because it would not be particularly surprising to see some rather sudden drops in the price of cotton land if we wind up the year with as big a cotton surplus as now seems probable.

BUILDING MATERIAL PRODUCTION IN FIRST HALF OF 1951

DURING the first half of this year building materials have generally been in good supply. From now on, however, defense requirements are going to bite more heavily into the supply of strategic metals. The impact of the defense program is going to be made all the greater and the confusion made more compounded by the government's Controlled Materials Plan. The fact that certain amounts are to be needed in the defense program is no reason for the government to put all other users on a dole of steel, copper and aluminum.

On pages 434 and 435 are 20 small charts. One shows the production of all building materials from 1945 to 1951, while the others show production of 19 different types of building materials. In studying these charts you should remember that the individual material charts have not been corrected for seasonal

changes. In production of these materials seasonal changes are considerable and show up quite sharply in the 1951 figures. The figures prior to 1951 are yearly figures and naturally show no seasonal fluctuations.

There are several interesting observations to be made from these charts. For example, the chart on the production of mechanical stokers shows how drastically the demand for coal-fired heating has dropped. The production rate is less than 16% of the 1939 level. The tremendous increase in the output of gypsum products reflects the drastic swing toward dry wall construction and the virtual disappearance of wood lathing. Dry wall construction is also largely responsible for the rise in production of plywood. The strong upward trend in the output of warm air furnaces is supplemented by the downward trend in the output of cast-iron radiation. Cast-iron radiation is being produced at less than one-half the 1939 rate. The steady upward trend and present high production levels of the various steel products is also interesting.